

CollegeCounts 529 Board Meeting
February 5, 2014
MINUTES

Board Present:

Chair Young Boozer
Mr. Dennis Beavers
Dr. Greg Fitch
Ms. Sara Calhoun for Dr. Mark Heinrich
Mr. Daniel Hughes
Dr. William Meehan
Mr. Mychal Smith

Board Absent:

Mr. Chess Bedsole
Lt. Governor Kay Ivey
Mr. Ronald Stokes

Others Present:

Ms. Daria Story, Assistant Treasurer
Mr. Chad Wright, Program Director
Mr. Jay Steinacher, Union Bank & Trust
Mr. William Shafferman, Union Bank & Trust
Ms. Cari Kaup, Union Bank & Trust
Mr. Jeremy Thiessen, PCA Consultants (by phone)
Mr. Mannik Dhillon, Wilshire Associates
Ms. Leah Emkin, Wilshire Associates

Pursuant to written and public notice, the meeting of the Board of Directors of the CollegeCounts 529 Fund was held in the RSA Union Conference Room in Montgomery, Alabama on February 5, 2014.

Agenda Item 1.

The meeting was called to order by Chair Young Boozer at 9:05 a.m. Roll was taken with a quorum present.

Agenda Item 2.

Chair Boozer presented the minutes of the November 6, 2013 board meeting. A motion for approval of the minutes was made by Mr. Beavers, seconded by Mr. Smith, with unanimous approval.

Agenda Item 3.A.

Chair Boozer called on Mr. Chad Wright for the program report. Mr. Wright provided information on the program budget as well as asset statements for the Administrative and Opportunity Enhancement Funds. Mr. Wright mentioned that state examiners recently completed the required legal compliance audit of the program and that the final report would be issued and copied to board members in the near future. He stated that the examiners indicated that the report would have no findings. Mr. Wright mentioned that numerous PACT account owners had

called to inquire about rolling funds from PACT to CollegeCounts or establishing supplemental accounts with CollegeCounts in addition to their PACT funds. He then stated that all scholarship payments for the fall semester had been issued and that twenty nine schools within the state had received payments. Mr. Wright mentioned that there were two students that were awarded scholarships that were unable to utilize the proceeds during the Fall semester (one due to full athletic scholarship and one due to part-time enrollment status). He provided a statement of cash flows for the scholarship fund and indicated that total assets as of December 31, 2013 were \$8.6 million.

Agenda Item 3.B.

Chair Boozer called on Mr. Jay Steinacher for the quarterly program review. Mr. Steinacher stated that the 4th quarter of 2013 was another very strong period for the program and continued the positive momentum that was established earlier in the year. He indicated that total assets in the plan increased to \$1.14 billion at quarter-end, with year over year assets up 22.7%. Assets held by Alabama residents have increased by 43.7% to a record level of \$414.3 million. Mr. Steinacher stated that total plan contributions for the year were \$150.7 million, up 11% over the same period in 2012. Rollover contributions from other plans continue to be solid as well, with \$32.1 received during the year. He provided general statistics on the plan, indicating that the program continues to offer solid investment choice and diversity, with approximately 2/3 of the assets in the plan invested in equities and the remaining 1/3 in fixed income. He stated that the average age of account owners is 48 and the average age of beneficiaries is 12, with an average account size of approximately \$18,000. Mr. Steinacher went on to provide information on new account activity, contribution and withdrawal activity, portfolio assets by market value, asset allocation and beneficiary statistics. He summarized marketing activity and provided samples of all Direct Plan and Advisor Plan marketing materials. He reminded board members that Red Square, the existing marketing firm had elected to change their business model and focus more on the gaming industry. Mr. Steinacher stated that a Request for Information (RFI) was issued to ten qualified Alabama marketing firms and that five responses were received. Those responses were evaluated and three quality firms (Luckie & Co, Cayenne Creative and BIG Communications) were chosen for interviews. The Board will be notified once a firm has been selected.

Mr. Steinacher asked Mr. Will Shafferman to provide information on grass roots marketing efforts. Mr. Shafferman highlighted information on the numerous advisor contacts, community events, conventions and conferences that he had attended to market the program. He mentioned that he was receiving very positive feedback from both the advisor and direct communities. He mentioned that he had visited over 40 elementary and middle schools that have agreed to distribute brochures to each of their students. In addition, he made presentations at five PTA meetings, five service clubs, three CPA related events and four employers during the quarter. He stated that the Babypalooza event was going to be expanded to 7 cities across the state, which would offer increased opportunities to present the program to new and expecting parents.

Mr. Steinacher asked Ms. Cari Kaup to provide information on the customer care process that Union Bank provides for the program. Ms. Kaup provided information on the web activity for the direct and advisor sites. She stated that there were nearly 87,000 visitors to the Direct Plan site and 27,000 visitors to the Advisor Plan site during the year and that 70% of Direct Plan accounts were opened through the website. She stated that approximately 60% of visits to the site during the year were from new visitors. Ms. Kaup stated that call center representatives were available to provide service to callers Monday through Friday between the hours of 7:30 a.m. and 6:00 p.m. Due to increased calls at year end for tax related inquiries, etc., she stated that the call center offered extended weekday hours (until 7:00 p.m.) and Saturday hours (from 8:30 a.m. until 1:30 p.m.) as well during the month of December. The call center processed

41,000 calls during the year, with almost 5,000 of those in December alone. For the year, call center employees average mailing out 120 Direct Plan enrollment kits and 600 Advisor Plan enrollment kits per month.

Agenda Item 3.C.

Chair Boozer called on Mr. Mannik Dhillon of Wilshire Associates for the investment performance report. Mr. Dhillon introduced Ms. Leah Emkin, a Senior Client Services Associate with Wilshire, as a new member of the CollegeCounts team. Ms. Emkin stated that she has been with Wilshire for six years and is the head of their client services team. She indicated that, while she has not attended board meetings in the past, she has been involved with the CollegeCounts account for several years. It was mentioned that Ms. Emkin's father, Allan Emkin, is the founder and managing director of the board consultant Pension Consulting Alliance (PCA), but there is no conflict of interest. Mr. Dhillon then provided commentary on the economy and stated that equity markets had performed relatively well as a whole over the course of the past year. He stated that there was continued optimism over domestic equities that showed moderate but continued improvement and growth. He stated that small cap stocks continued to outperform large caps while growth oriented companies outperformed value oriented companies, which is expected in a recovering market. Mr. Dhillon then stated that interest rates traded in a relatively narrow band most of the fourth quarter as investors awaited clarity around anticipated Fed tapering. Yields on ten-year treasuries rose above 3% by year-end following the Fed's announcement to begin tapering monthly bond purchases in January 2014. He stated that Wilshire's outlook for 2014 is positive for equities, although muted compared to 2013, with single digit returns expected. Non-U.S. equity markets enjoyed strong performance overall in 2013, although emerging markets stocks struggled due to economic slowdowns and economic uncertainties.

Mr. Dhillon then provided a summary of the individual fund portfolios for both the direct and advisor plans and provided commentary on fund performance compared to the relative benchmarks.

Agenda Item 3.D.

Chair Boozer called on Mr. Thiessen for the consultant's analysis. Mr. Thiessen provided a summary of PCA's investment market risk metrics, fund performance and status report. He stated that there were two funds in the advisor plan that remain on watch status as of the end of the quarter—Cohen & Steers Dividend Value and ING Global Real Estate. No additional funds qualified for watch status. Since being placed on watch, the Cohen & Steers Dividend Value Fund has trailed its benchmark by 3.3%. Relative underperformance is attributed to poor stock selection in the consumer, cyclical, technology and energy sectors. However, after several quarters of underperformance, the fund began to outperform its index during the fourth quarter and has now moved into the "acceptable" range under both the short-term and medium-term performance criteria. Mr. Thiessen reiterated that the fund is well positioned for strong performance during a period of rising interest rates. He then provided information regarding the fund's performance compared to similar dividend focused funds. While the fund has underperformed versus the Russell 1000 Value Index, it has outpaced the median dividend focused peer group (80 funds compiled by PCA) over the latest one and three year periods. Therefore, the fund has outpaced similar strategy funds despite trailing the benchmark. Given the fund's recent short-term improvement, PCA recommended that the fund remain on watch status to continue to monitor performance.

During the ING Global Real Estate Fund's twelve month watch period, performance has lagged behind the benchmark by 2.0%. However, the fund has seen improvement over the past several months and short-term performance has moved into the "acceptable" range while medium-term performance was 3 basis points short of the same. Relative underperformance is

attributed to security selection underperformance in Hong Kong, Australia and Singapore. The fund provides participants with solid, diversified international real estate exposure with no immediate concerns over relative underperformance. PCA recommends that the fund remain on watch status.

Agenda Item 3.E.

Chair Boozer provided a summary of the CollegeCounts Scholarship. He stated that 1603 applications have been initiated to date, with 127 of those submitted and 7 completed. He stated that the application period had only been open for one month and that the application deadline was March 19, which allowed for approximately 2 additional weeks to apply compared to last year.

Agenda Item 4.A.

Chair Boozer directed board members to review the audit report of the CollegeCounts program and indicated that the report was positive and there were no negative comments.

Agenda Item 4.B.

Chair Boozer reminded all board members of their obligation to complete a Statement of Economic Interests through the Ethics Commission by April 30, 2014.

There being no further business, a motion to adjourn was made by Mr. Beavers, seconded by Dr. Meehan, with unanimous consent. The meeting adjourned at 10:50 a.m.

All detailed reports were received for information and are attached for reference.

Chad Wright, Recording Secretary

Young Boozer, Chair